

HAVERTY FURNITURE COMPANIES INC
Form 10-K
March 16, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number:1-1445

HAVERTY FURNITURE COMPANIES, INC.

Maryland
(State of Incorporation)

58-0281900
(IRS Employer Identification Number)

780 Johnson Ferry Road, Suite 800

Atlanta, Georgia
(Address of principal executive offices)

30342
(Zip Code)

(404) 443-2900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class
Common Stock (\$1.00 Par Value)
Class A Common Stock (\$1.00 Par Value)

Name of each exchange of which registered
New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the

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registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Paragraph 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12B-2 of the Exchange Act). Yes No

As of June 30, 2008, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$154,752,263 (based on the closing sale prices of the registrant's two classes of common stock as reported by the New York Stock Exchange).

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of February 28, 2009
Common Stock, \$1 par value per share	17,338,991 shares
Class A Common Stock, \$1 par value per share	3,994,101 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held May 8, 2009	Part III

HAVERTY FURNITURE COMPANIES, INC.

Annual Report on Form 10-K for the Year Ended December 31, 2008

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PART I

ITEM 1. BUSINESS

Unless the context indicates otherwise, references to Havertys, the Company, we, us, and our refer to the consolidated operations of Haverty Furniture Companies, Inc. and its subsidiaries.

General

Havertys is a specialty retailer of residential furniture and accessories. We provide our customers with a wide selection of products and styles primarily in the middle to upper-middle price ranges. As an added convenience to our customers, we offer financing through an internal revolving charge credit plan as well as a third-party finance company.

Havertys originated as a family business in 1885 in Atlanta, Georgia with one store and made deliveries using horse-drawn wagons. The Company grew to 18 stores and accessed additional capital for growth through its initial public offering in October 1929. Havertys has grown to over 120 stores in 17 states in the Southern and Midwest regions. All of our stores are operated using the Havertys name and we do not franchise our stores. Based on 2007 revenues and as reported by *Furniture Today*, we were one of the top 20 largest retailers of furniture in the country. We believe that we are an effective and significant competitor in our markets.

We serve a target customer in the middle to upper-middle income ranges. Havertys has attracted this discriminating and demanding consumer by focusing on what we believe are the key elements of furniture retailing:

- stylish and fashionable merchandise at a discernible value;
- knowledgeable and helpful sales associates;
- convenient and appealing stores;
- easily navigable website for pre-shopping or transaction consummation;
- targeted and complimentary advertising;
- timely delivery of purchases to our customers' homes; and
- availability of flexible and competitive financing.

At Havertys, the essential ingredient in all of the above is an overriding focus on customer service. We believe that these elements combine to generate substantial brand loyalty and repeat customer business.

Industry

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The retail furniture industry does not have a dominant national retailer. Personal consumption expenditures on residential furniture, which includes mattresses, totaled \$85.0 billion in 2007, yet the 25 largest furniture retailers account for only 30% of the sales. Individual local market retailers, larger multiple market operators, department stores, manufacturers stores, lifestyle retailers and wholesale clubs are all competing for the consumers business.

The industry has been undergoing numerous fundamental changes over the last few years resulting from increased availability of high quality and lower cost imports. These factors have caused larger domestic manufacturers to increase foreign sourcing, reduce capacity and search for distribution solutions including forays into their own dedicated retail channel. Mass merchants such as COSTCO, Target and Walmart have expanded their furniture offerings both in-store and on-line. The dramatic rise in quality imported product created opportunities for retailers to price-down their merchandise in an attempt to stimulate top-line growth which in turn has led to industry deflation and margin pressure. However, financing the increased level of imports has created pressure on a number of retailers particularly in a period of declining sales. The increased level of imports has also challenged the back-end of the retailing business as lead-times from the factories are significantly longer and shipment quantities are larger.

These fundamental changes have been closely followed by a weak economic cycle which has continued to deteriorate. The retail furniture industry is particularly sensitive, given that home furnishings are a large and postponable purchase. We believe that the severe weakness in housing, home mortgage markets, consumer confidence and personal disposable income and the loss of wealth in equity markets have negatively impacted sales.

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This has placed additional pressure on retailers and we expect there will be many financially weaker ones that will be forced to exit the business during this recession.

Strategy

Our operating strategy is to offer quality merchandise which has been selected and priced to appeal to our target customer. Our merchandise is primarily proprietary products branded Havertys, supplemented by key brands in the bedding category. We use a multichannel approach to reach our customers with products displayed attractively in well located stores, offered on our website and advertised through catalogs, direct mailer and newspaper inserts. We believe that the quality of the merchandise we offer and our knowledgeable sales associates, coupled with the ability to deliver purchases within a short time-frame, are very important to our ability to maintain customer satisfaction.

We have made significant investments in our distribution infrastructure and believe that we effectively flow products, particularly the large amount of imported goods, to our customers. Our store support infrastructure includes our proprietary management information systems, training processes, merchandising capabilities and customer credit processes. The current economic cycle has made it difficult to leverage our investments in distribution facilities and store support infrastructure.

Our strategy for expansion has been to pursue opportunities in denser markets which we can serve using our existing distribution system. Assuming continuation of the difficult macro environment for residential furniture sales, the opportunities for store locations are likely to rise as weak retailers are unable to withstand a prolonged decline in business. However, given the challenging sales environment we do not expect to expand our square footage in the near term.

Our primary focus is to carefully manage our resources. We have made several adjustments to our cost structure and limited our capital spending. Our strong balance sheet and sufficient borrowing capacity puts Havertys on solid footing, which is critical during a difficult economic cycle, and provides the means for opportunistic expansion in the future when conditions improve.

Revenues

The following table sets forth the approximate percentage contributions by product and service to our gross revenues for the past three years:

	Year ended December 31,		
	2008	2007	2006
Merchandise:			
Living Room Furniture	48.2 %	48.1 %	47.6 %
Bedroom Furniture	21.4	21.3	22.1
Dining Room Furniture	11.7	11.6	12.4
Bedding	9.4	10.1	9.8
Accessories and Other ⁽¹⁾	9.0	8.6	7.8
Credit Service Charges	0.3	0.3	0.3
	100.0 %	100.0 %	100.0 %

- (1) Includes delivery charges and product protection.

Merchandising

A majority of the merchandise we carry bears the Havertys brand, Havertys®. We also offer nationally well-known bedding product lines of Sealy®, Serta® and Tempur-Pedic®. We have avoided utilizing lower quality, promotional price-driven merchandise favored by many national chains, which we believe would devalue the Havertys brand with the consumer.

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We tailor our merchandise presentation to the needs and tastes of the local markets we serve. All five regional managers are included in our buying team, and their input allows us to present a product mix that is roughly 12% regionalized. This varietal mix allows us to offer more coastal or western or urban looks to the appropriate markets.

Many retailers have been advertising aggressive sales promotions to stimulate business and increase their volume. We believe that this approach would negatively impact our everyday low pricing integrity with our customers over the longer term. Instead, we have used targeted promotional pricing during traditional sales events. Working with our suppliers we have received pricing reductions for limited time sales on better selling merchandise. This spurs consumers and increases volume on other products in that collection. Supplementing the pricing promotions, we also offer free-interest and deferred payment financing promotions.

Our core furniture merchandise comprises approximately 88% of the furniture items, excluding bedding and accessories, which we carry in most of our stores. Additional products that are more regionally focused and items needed to merchandise our largest retail stores supplement the core furniture merchandise assortment. The level of imported merchandise that we offer has increased during the past few years as the quality and consistency of the products have improved. Imported products comprised approximately 37% of our core merchandise groups at December 31, 2003, and has increased to approximately 74% of our core merchandise groups by the end of 2008. Wood products, or case goods, are generally imported from Asia, with only 6% of our selected case goods at December 31, 2008 produced domestically. Upholstered items are not as heavily imported, with the exception of our leather products, of which approximately 64% were imported from Mexico or Asia during 2008.

We purchase most of our merchandise through domestic manufacturers or agents and a small level of products working directly with foreign manufacturers. We believe that, although there are savings in the direct import approach to sourcing our goods, there are also associated risks with quality and customer acceptance. We are using several design firms to complement our merchandising team's skills to develop our proprietary Havertys products. We have also selected an experienced quality control firm that is dedicated to exclusively inspecting product produced for Havertys. These steps are necessary as we evaluate expanding our direct import program.

Although we have only an estimated 1% national market share of the highly fragmented furniture retail market, we are an important customer to the largest furniture manufacturers due to our financial strength. Our current size and growth potential provide opportunities to enhance our purchasing power with our suppliers. We purchased approximately 44% of our merchandise from 10 vendors in 2008. There are, however, numerous additional merchandise sources available to Havertys.

Multichannel Reach

We have developed and integrated our sales, credit, inventory and distribution systems to enable selling to customers within our delivery footprint through multichannels. Our sales associates are enabled by our store systems and website to provide our customers with a single source for service from product selection, credit approval and the setting of the delivery date. Customers can also use our website to obtain product availability, purchase and schedule delivery on-line. Our catalogs, direct mailers and newspaper inserts are also used to reach our customers with product information and pricing. These various channels allow us to more fully realize the benefits of our continuing investments in product selection, advertising, stores and distribution.

Stores

As of December 31, 2008, we operated 122 stores serving 80 cities in 17 states. We have executed a program of remodeling and expanding showrooms and replacing older smaller stores in growth markets with new larger stores, closing certain locations and moving into new markets. Accordingly, the number of retail locations has increased by 22 since the end of 1998, but total square footage has increased approximately 30%.

We strive to have our stores reflect the distinctive style and comfort consumers expect to find when purchasing their home furnishings. The store's curb appeal is important to the type of middle to upper-middle income consumer that we target and our use of classical facades and attractive landscaping complements the quality and style of our merchandise. Interior details such as floor surfaces, lighting and music have been carefully chosen as backgrounds for a pleasant and inviting shopping experience. We persistently review our showrooms' floor layouts to ensure that we are merchandising in the best manner.

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Direct-to-Customer

Our website has proven to be useful in reaching the growing number of consumers that use the internet to pre-shop before going to a store. The site also provides our sales associates a tool to further engage the customer while she is in the store and extend her shopping experience when she returns home. We limit on-line sales of our furniture to within our delivery network, and accessories to the continental United States. We believe that a direct-to-customer business complements our retail store operations by building brand awareness and is an effective advertising vehicle.

The first stage of our improved website went live in early October 2007 and featured enhanced shopping, consumer product reviews, credit application and delivery availability. Improvements in early 2008 provide consumers with room planners, allows them to develop wish lists, place orders on-line and set delivery of their purchases. Post-purchase features include follow the truck for deliveries and customer service opportunities. The website averaged approximately 23,000 visits per day from potential and existing customers during 2008.

We may also distribute seasonal catalogs to selected consumers and use direct mailers and newspaper inserts to reach consumers. The catalogs are generally 90 to 100 pages and contain product information and pricing. During 2008, we mailed approximately 600,000 catalogs and delivered one to each customer with their purchase. We had ten direct mail events with approximately 800,000 pieces mailed for each and distributed 134 million newspaper inserts in 2008. Based on the current economic environment we do not expect to use catalogs during 2009 and will increase the number of direct mail events.

Distribution

Our distribution system uses a combination of three distribution centers, three home delivery centers and 12 local market cross-docks. The distribution centers (DCs) are designed to shuttle prepped merchandise up to 250 miles for next day home deliveries, and serve cross-docks and home delivery centers within a 500-mile radius. The home delivery centers in turn provide service to markets within an additional 200 miles. Local market cross-docks process inventory in the same manner as a home delivery center but only serve a single outlying market.

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The advantages of our system over a local warehousing based model include better management of inventory with reduced levels of closeouts and damaged merchandise. This structure also enables us to enter new markets without adding local market warehouses. Our customer service has been consolidated from the local markets to two call centers, where state-of-the-art phone and computer systems allow for easier access to delivery scheduling and follow-up information.

We use technology to assist in maintaining an efficient supply chain. A forecasting system provides guidance on the ordering of merchandise, identifies products that have sales volumes that differ from expectations and provides recommended purchase order changes. A warehousing management system using radio frequency scanners tracks each piece of inventory in real time and allows for efficient scheduling and changing of the workflow. These systems assist us in maintaining close control of our inventory and meeting the delivery expectations of our customers. We believe that our distribution system is one of the best in the retail furniture industry and provides us with certain competitive advantages.

Management Information Systems

We continue to expand and improve the use of technology across all of our business processes with a customer-centric approach. Our fully integrated information system tracks, on a real-time basis, inventory flow from our vendors to receipt in and movement within our warehouses and delivery to our customers. This allows sales associates and customers to see availability, potential delivery dates and follow the truck on delivery day. Merchandising and supply chain teams can adjust product flow from vendors based on current results compared to expectations to improve product availability and maintain proper levels of inventory.

Customers are assigned unique identifiers which are used to handle purchase, delivery and service functions and that information is stored in a database accessible across our enterprise. This improves communications across all aspects of customer touchpoints and allows consumers, if they prefer, to use a wide range of self service features via our website. Our system provides tools for sales associates to aid in strengthening their customer relationships and providing a high level of assistance.

Our integrated management information system also includes extensive functionality for management of the complete credit portfolio life cycle. We make extensive use of our communication network for video training and webinars in many areas from distribution and delivery to sales and customer service. All of our current business application software, except our website engine, accounting systems and certain stand-alone applications has been developed in-house by our management information system employees. We believe these systems efficiently support our current operations and provide a foundation for future growth.

As part of our ongoing system availability protection and disaster recovery planning, we have a redundant data center that provides the ability to switch production processing to the secondary system should the primary data center become disabled or unreachable. The two centers are kept synchronized utilizing third party software and SAN technology. This system provides "high availability" of the production processing environment. The redundant center is geographically removed from our corporate office for purposes of disaster recovery and security.

Credit Operations

As a service to our customers, we offer a revolving charge credit plan with credit limits determined through our on-line credit approval system and an additional credit program outsourced to a third-party finance company. The combined amount financed under our credit program and the third-party finance company, as a percent of net sales, was 44% during 2008. We believe that our credit offerings are a reasonable response to similar or more aggressive promotions advertised by competitors.

Havertys Credit Services, Inc. (Havertys Credit), a wholly-owned subsidiary of the Company, handles the credit approval, collections and credit customer relationship functions. At December 31, 2008, Havertys Credit maintained a receivables portfolio of approximately \$28.1 million, before deducting reserves. Our credit programs typically require a 25% down payment although the average is lower due to frequent "No Down Payment" offers for above average sales ticket amounts. The standard (non-promotional) credit service charge rate currently ranges from 9.9% to 14.9% per annum (except for a lower rate in Arkansas). We routinely offer various interest-free periods of up to 12 months as part of promotional campaigns but do not offer payment deferrals beyond six months. The Havertys Credit financing program chosen most frequently by our customers during 2008 was a no interest offer requiring 12 equal monthly payments. Amounts financed under our programs represented

approximately 8% of 2008

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sales. We elected to shift the offering of the longer term no interest promotions to the third-party provider during 2008. This change has helped to shrink our receivables portfolio, reduce our capital requirements, and limit our exposure to consumer receivables.

The additional programs provided by the third-party finance company generally provide for longer payment deferrals than we choose to offer. Discounts on the outsourced credit sales approved by the third-party finance company are charged to selling, general and administrative (SG&A) expenses as are national credit card fees. Sales financed by the third-party provider are not Havertys' receivables and accordingly, we do not have any credit risk or servicing responsibility for these accounts, and they are not included in our consolidated financial statements. Further, the third-party finance company has no credit or collection recourse to Havertys, and we generally receive payment from them within two to three business days from the delivery of the merchandise to the customer.

Over the last several years, credit service charge revenue has declined due to the increase in outsourcing of financing and as we have offered longer free interest periods in our financing promotions. As a result, few customers have had to pay credit service charges and free interest receivables have risen. These combined factors resulted in an average interest yield of approximately 4.6% for 2008.

Competition

The retail sale of home furnishings is a highly fragmented and competitive business. The degree and source of competition vary by geographic area. We compete with numerous individual retail furniture stores as well as chains and certain department stores. Department stores benefit competitively from more established name recognition in specific markets, a larger customer base due to their non-furnishings product lines and proprietary credit cards. Furniture manufacturers have also opened their own dedicated retail stores in an effort to control and protect the distribution prospects of their branded merchandise.

We believe Havertys is uniquely positioned in the marketplace, with a targeted mix of merchandise that appeals to customers who are somewhat more affluent than those of competitive price-oriented furniture store chains. We believe that our customer segment responds more cautiously to typical discount promotions and focuses on the product quality and customer service offered by a retailer. We consider our experienced sales personnel and customer service as important factors in Havertys' competitive success. Significant additional competitive advantages we believe are also provided by Havertys' abilities to make prompt delivery of orders through maintenance of inventory and to tailor merchandise to customers' desires on a local market basis.

Employees

As of December 31, 2008, we had approximately 3,560 employees: 2,770 in individual retail store operations, 190 in our corporate and credit operations, 55 in our customer-service call centers, and 545 in our warehouse and delivery points. No employee of Havertys is a party to any union contract and we consider our employee relations to be good. To attract and retain qualified personnel, we seek to maintain competitive salary and wage levels in each market area.

We have developed training programs, including interior design, product knowledge, selling and management skills classes. Because we primarily promote or relocate current associates to serve as managers and assistant managers for new stores and markets, training and assessment of our associates is essential to our growth. Our regional managers and market area managers meet with senior management to discuss the development of assistant managers and certain department heads and consider possible candidates for promotion. We also maintain a list of qualified outside applicants that can be reviewed when positions become available. We have programs in our stores, distribution and corporate offices to ensure that we hire and promote the most qualified associates in a nondiscriminatory way.

Trademarks

We have registered our various logos and Havertys® trademark with the United States Patent and Trademark Office. We believe that our trademark position is adequately protected in all markets in which we do business. We believe that our trade names are recognized by consumers and are associated with a high level of quality, value and service.

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Governmental Regulation

Our operations are required to meet federal, state and local regulatory standards in the areas of safety, health and environmental pollution controls. Historically, compliance with these standards has not had a material adverse effect on our operations. We believe that our facilities are in compliance, in all material respects, with applicable federal, state and local laws and regulations concerned with safety, health and environmental protection.

The products we sell are subject to federal regulatory standards. We have processes in place to ensure compliance with these standards and that these processes are adjusted as necessary for changes in the regulations. We believe that the products we sell are in substantial compliance with the regulatory standards governing such products.

The extension of credit to consumers is a highly regulated area of our business. Numerous federal and state laws impose disclosure and other requirements on the origination, servicing and enforcement of credit accounts. These laws include, but are not limited to, the Federal Truth and Lending Act, Equal Credit Opportunity Act and Federal Trade Commission Act. State laws impose limitations on the maximum amount of finance charges that we can charge and also impose other restrictions on consumer creditors, such as us, including restrictions on collection and enforcement. We routinely review our contracts and procedures to ensure compliance with applicable consumer credit laws. Failure on our part to comply with applicable laws could expose us to substantial penalties and claims for damages and, in certain circumstances, may require us to refund finance charges already paid and to forego finance charges not yet paid under non-complying contracts. We believe that we are in substantial compliance with all applicable federal and state consumer credit and collections laws.

For More Information About Us

Filings with the SEC

As a public company, we regularly file reports and proxy statements with the Securities and Exchange Commission. These reports are required by the Securities Exchange Act of 1934 and include:

- annual reports and Form 10-K (such as this report);
- quarterly reports on Form 10-Q;
- current reports on Form 8-K; and
- proxy statements on Schedule 14A.

The SEC maintains an internet site that contains our reports, proxy and information statements, and our other SEC filings; the address of that site is <http://www.sec.gov>.

Also, we make our SEC filings available on our own internet site as soon as reasonably practicable after we have filed with the SEC. Our internet address is <http://www.havertys.com>. The information on our website is not incorporated by reference into this annual report on Form 10-K.

Corporate Governance

We have a Code of Business Conduct for our employees and members of our Board of Directors. A copy of the code and additional information about our corporate governance policies are posted on our website. Click on the [About Us](#) and then [Corporate Governance](#) buttons to find, among other things:

Corporate Governance Principles;
Charter of the Audit Committee;
Charter of the Compensation Committee; and
Charter of the Governance and Nominating Committee.

Any of these items are available in print free of charge to any stockholder who requests them. Requests should be sent to Corporate Secretary, Haverty Furniture Companies, Inc., 780 Johnson Ferry Road, Suite 800, Atlanta, Georgia 30342.

EXECUTIVE OFFICERS

The following table sets forth certain information as of March 1, 2009 regarding the executive officers of Havertys.

Name	Age	Position with the Company and Other Information
Clarence H. Ridley	66	Chairman of the Board since January 2001. Vice Chairman from 1996 to 2000; Partner at King & Spalding from 1977 to 2000. Director of the Company since 1979.
Clarence H. Smith	58	Chief Executive Officer since January 2003 and President since May 2002. Chief Operating Officer from May 2000 to 2002; Senior Vice President and General Manager, Stores from 1996 to 2000. He has served in other capacities at both the operational and corporate levels since joining the Company in 1973. Director of the Company since 1989.
Steven G. Burdet		